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BEFORE THE UNITED STATES
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

SPECIAL SERVICES REFORM, 1996

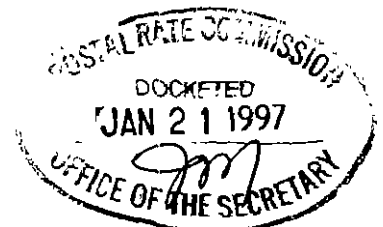
Docket No. MC96-3

REPLY BRIEF OF
DIRECT MARKETING ASSOCIATION, INC.

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January 21, 1997



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As explained in our Initial Brief, DMA's interest in this proceeding lies not with the specific rates for the special services at issue, but with ensuring that the Commission adheres to sound principles in undertaking its review of the changes proposed by the Postal Service. In this proceeding, as in any other, it is axiomatic that the Commission may approve proposed rate or classification changes only if it concludes that they satisfy established statutory criteria. It is equally clear that the Commission may not favorably recommend the changes proposed herein unless it concludes that the overall USPS rate structure, post-changes -- including the relative institutional cost burdens for all mail classes and services -- will remain fair and reasonable. Because the narrow scope of this proceeding does not allow the Commission to revisit the comprehensive rate judgments it made in the most recent omnibus case, including its judgments about relative institutional cost coverages, the Commission cannot approve USPS's proposed rate changes unless it concludes that,

at a minimum, the record in this case permits it to analyze the effect those proposals would have on the cost coverage relationships approved in R94-1.

OCA's Brief endorses this principle. Citing the testimony of OCA witness Sherman, OCA emphasizes the need for the Commission to make the judgment that USPS's overall rate schedule is fair and equitable by reference to comparisons of institutional cost coverages "across services." OCA Br., p. 37 (quoting Tr. 7/2275). OCA also correctly points out that "[r]ates established in an omnibus rate case" are fair and reasonable because, in such a proceeding the Commission is able to "determin[e] the test year net revenue requirement, evaluat[e] the relative contribution margins for every class and subclass of mail, and ensur[e] that all factors of the Postal Reorganization Act are considered." OCA Br., p. 39. Based on these propositions, with which DMA strongly agrees, OCA concludes that USPS's proposed rate changes must await the next omnibus rate proceeding.

In its Brief, the Postal Service does not challenge this basic principle. USPS states that comparison of cost coverages may be less important in this docket because the rate changes proposed here are "limited to special services," the cost coverages for which, it argues, "have not in the past been set with specific reference to cost coverages for the classes of mail." USPS Br., p. 15. USPS then proceeds to argue that the present record contains sufficient information to permit the Commission to establish the cost coverages for the special services at issue here "with reference to other cost coverages." USPS Br., pp. 15, 30.

In contending that the existing record is adequate to make such comparisons, however, USPS misses the crucial point. As DMA's Initial Brief explains, it is not enough that the Commission have before it tables showing the cost coverages for all mail classifications and special services. Such figures might allow a comparison among cost coverages, but they do not permit the comparison the Commission is obligated to make in this case, which is an apples-to-apples comparison between the cost coverages resulting from the proposed rate changes and the cost coverages judged reasonable in R94-1, when the Commission last assessed the myriad factors that bear on the reasonableness of postal rates. Cost coverage figures based on FY 1995 (actual) or FY 1996 data are different from those judged reasonable in R94-1 -- and in non-systematic ways.^{1/}

CONCLUSION

DMA takes no position on the factual question of whether the proposed selective rate adjustments can properly be made in this case,^{2/} i.e., whether the

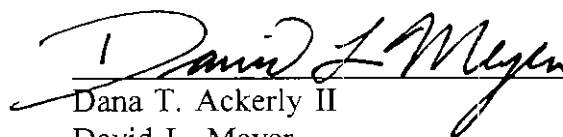
^{1/} Our Initial Brief has already demonstrated the divergence between the cost coverages approved in R94-1 and those in the 1996 Test Year data proffered by USPS in this proceeding. The FY 1995 base year data in this proceedings (Exhibit USPS-T-5C, at 16) similarly reveals that the cost coverages are dramatically different -- and in no systematic way -- from those approved in R94-1. See R94-1, App. G, Sched. 1. A few simple comparisons will suffice to demonstrate this point:

	<u>FY 1995 Actual (USPS-T-5C)</u>	<u>FY 1995 Test Year (R94-1)</u>
2d Class Reg.	113.2%	116.3%
3d Class Bulk Reg.	167.1%	150.9%

^{2/} This question was avoided in MC95-1, which went forward on the principle of "revenue neutrality" and thereby left undisturbed the basic rate relationships judged to have been "fair and reasonable" in the most recent omnibus proceeding.

current record is adequate to permit the Commission to make the judgment that, after the proposed rate adjustments, the entire USPS rate structure -- including the relative institutional cost burdens of all mail classifications -- will remain fair and reasonable. However, DMA is not aware of any way for the Commission to perform a meaningful cost coverage comparison across services without using Test Year 1995 (R94-1) data or reviewing the entire USPS rate structure using new data. The current record clearly does not permit the Commission to engage in the latter analysis. Thus, 1995 data appears to provide the only basis upon which the Commission can determine the fairness and reasonableness of the USPS proposal in the overall context in which such a judgment must be made.

Respectfully submitted,



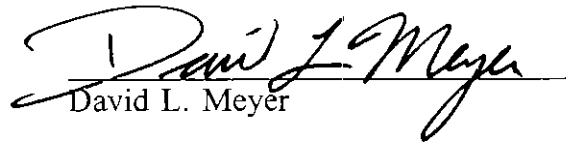
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January 21, 1997

CERTIFICATE OF SERVICE

I hereby certify that I have this 21st day of January, 1997, date served the foregoing document in accordance with Section 12 of the Commission's Rules of Practice, as modified by Rule 3 of the Special Rules of Practice, using "Procedure (3)."


David L. Meyer